

AR62

ANDRÉS

Wines Ltd.

A N N U A L R E P O R T

CORPORATE PROFILE Andrés Wines Ltd. is a leading producer and marketer of quality wines in Canada. With wineries in British Columbia, Alberta, Ontario and Nova Scotia, the Company markets wines produced from grapes grown in Ontario's Niagara Peninsula, British Columbia's Okanagan Valley and vineyards around the world.

The Company's award-winning premium Peller Estates and Hillebrand Estates brands complement its popular-priced brands including Hochtaler, Domaine D'Or, Franciscan and Similkameen. With a focus on serving the needs of all wine consumers, the Company also produces and markets wine kit products from Brew King and Vineco International.

The Company owns the Wine Shoppe, an independent wine retailer in Ontario with more than 100 stores. Andrés' common shares trade on the Toronto Stock Exchange (symbols ADW.A and ADW.B).

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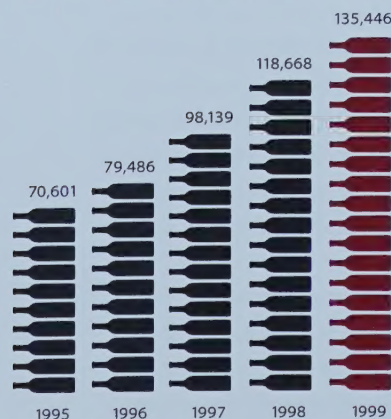
HIGHLIGHTS

For the Years Ended March 31

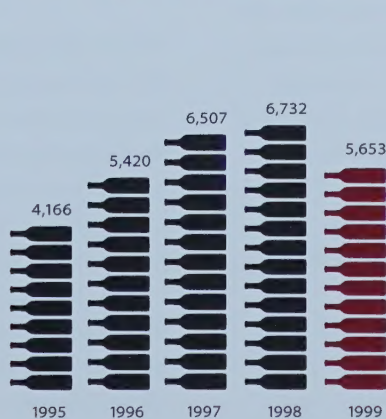
(in thousands of dollars except per share amounts)

	1999	1998
SALES AND EARNINGS		
Net sales	\$ 135,446	\$ 118,668
Earnings before interest and income taxes	13,706	13,377
Net earnings	5,653	6,732
FINANCIAL POSITION		
Working capital	\$ 23,115	\$ 24,512
Total assets	128,063	126,085
Shareholders' equity	56,265	53,504
PER SHARE		
Earnings		
Basic	\$ 1.20	\$ 1.44
Fully diluted	1.18	1.40
Dividends		
Class A shares, non-voting	\$.644	\$.644
Class B shares, voting	.560	.560
Shareholders' equity	\$ 11.97	\$ 11.39
Market value		
Class A – high	\$ 23.00	\$ 28.00
– low	14.25	17.00
Class B – high	24.00	26.00
– low	15.10	17.00
ANALYTICAL INFORMATION		
Return on average shareholders' equity	10.3%	13.1%
Return on average capital employed	12.5%	16.0%
Ratio of current assets to current liabilities	1.5:1	1.5:1

NET SALES
(thousands of dollars)



NET EARNINGS
(thousands of dollars)



SHAREHOLDERS' EQUITY
(thousands of dollars)



REPORT TO SHAREHOLDERS Andrés was successful in achieving increased sales in 1999, the result of continued growth in wine consumption in Canada. However, financial performance was disappointing as the Company faced significant change in its domestic market channels, as well as in the global wine industry. We responded by implementing a number of initiatives aimed at restoring our record of profitable growth.

Net sales for the year ended March 31, 1999 grew to \$135 million, due primarily to our expansion over the past two years into the home winemaking business through the acquisitions of Vineco and Brew King. However, in spite of this strong revenue growth, our profits were negatively influenced by a number of factors.

The key change in the markets affecting Andrés' profitability was the aggressive sales and marketing activity undertaken by the Liquor Control Board of Ontario. In an effort to improve its retail position, the LCBO undertook a number of initiatives that had a negative effect on the Ontario wine industry. By instituting Sunday openings and by relocating a number of outlets close to our retail locations, the LCBO has also negatively impacted Andrés' financial performance. Furthermore, increases in the market share of low-priced imported products lowered sales and margins for the entire Canadian wine industry.

In response, Andrés has taken a leading role over the past year in discussions with federal and provincial governments, as well as the LCBO, to ensure that a competitive balance exists and that industry and consumer interests are being served. We are confident that progress is being made to resolve these issues.

While earnings before interest, taxes and amortization for the year rose to \$17.7 million compared to \$16.8 million in 1998, profit margins for our bottled products and at our retail outlets were reduced by the factors outlined above. Higher grape and wine costs, compounded by the drop in value of the Canadian dollar, also served to reduce profit margins compared to last year. Interest and amortization costs were higher due to the acquisition of Brew King in November 1997. Net income for the year was \$5.65 million or \$1.20 per common share, down from \$6.73 million or \$1.44 per common share in 1998.

Andrés remains financially solid, as both our balance sheet and cash flow strengthened compared to last year. Shareholders' equity rose to \$56.3 million or \$11.97 per common share. Cash flow from operating activities, after changes in non-cash working capital items, improved to \$10.1 million compared to negative \$16.7 million last year. This ongoing financial strength provides the solid base on which to continue our growth.

On May 31, 1999, we strengthened our position in the highly competitive Quebec market in a transaction whereby we exchanged our Quebec-based winery and business for a 15% interest in a new entity and approximately \$8.5 million in cash. An estimated gain of \$5.2 million or \$1.10 per common share will be recorded on the transaction in the first quarter of the new fiscal year. This new venture forms the second-largest wine producer in the province, and a very strong marketing and distribution presence, with the critical mass to effectively compete in this important market.

FOCUS ON GROWTH

Going forward, we are confident that wine consumption will continue to increase in Canada, and we remain committed to our six-part strategy to deliver profitable growth. In 1999 we undertook a number of actions to respond and adapt to the changes in our markets and trade channels.

BRAND DEVELOPMENT DRIVES VOLUME GROWTH

We continue to be successful in building consumer awareness of our many quality brands through industry-leading marketing and merchandising programs. Our specific focus on increasing volumes of our premium VQA products in a number of different trade channels has produced positive results.

Last year we strengthened our position in the important premium market by purchasing lands on which to grow our own premium vinifera grapes. Over 200 acres of primarily red varietals were planted

in 1999, including Cabernet Sauvignon, Merlot and Cabernet Franc. Niagara-on-the-Lake and the Okanagan Valley remain two of the best locations in the world for the production of premium vinifera grapes, and reports indicate that the 1998 harvest will be one of the best ever. Our winemakers are confident that the quality of the 1998 vintage will equal, if not surpass, the world-beating wines we produced in 1991 and 1995.

Over the past few years, wine lovers around the world have come to recognize the quality and value of Canadian-produced premium wines. Andrés has been successful in capitalizing on this opportunity, and in 1999 grew the volume of its products exported to the United States, Europe and the Pacific Rim. Our industry-leading Peller Estates and Trius ice wines have proven to be particularly popular in a number of international markets.

We have also recently introduced an entirely new wine product called Vineyard Mist, a collection of refreshing, light-alcohol wines made from Chardonnay, White Zinfandel and Merlot varietals. Vineyard Mist has been brought to market to compete with lighter wines and refreshment beverages in the busy summer season, and has been well received by consumers across the country.

LICENSED ESTABLISHMENTS BUILD CONSUMER AWARENESS AND BRAND LOYALTY

Andrés' quality products are well represented in restaurants, bars, private clubs, hotels and other licensed establishments throughout Canada. Our ability to offer a complete range of products covering all taste preferences and price points sets us apart from our competition, and helps to further build consumer awareness and brand loyalty.

We are taking advantage of new legislation in Ontario permitting us to ship products directly to the growing list of licensees that serve our fine wines. Direct delivery presents a significant opportunity to increase sales, as well as to enhance consumer awareness of and loyalty for our VQA wines.

We have also been exploring other avenues to build consumer awareness. In 1999, we were selected by both Canadian Airlines and KLM to serve our Hillebrand and Peller Estates VQA products on their domestic and international first class, in-flight service.

OUR RETAIL NETWORK OFFERS SERVICE AND CONVENIENCE

Andrés' network of over 100 retail locations throughout Ontario remains a key part of our growth strategy. While the recent actions by the LCBO have affected volumes through this important trade channel, more consumers are recognizing the value of the service and convenience offered by their local Wine Shoppe.

We have initiated a number of new programs to ensure our retail locations continue to deliver the highest quality products and service in the most convenient locations. As part of our focus on investing in the latest productivity tools, a state-of-the-art Point of Sale information management system will be installed throughout the store network, providing us with the real-time data to more closely match our products with consumer preferences.

PROVIDING WINE COUNTRY VISITORS WITH A MEMORABLE EXPERIENCE

Andrés is a pioneer in providing visitors to wine country with a unique and high-quality experience. Our Hillebrand Estates winery was the first in the region to offer wine tours, tastings, a retail store stocking rare vintages and gourmet meals all situated in one scenic location. We have completed plans to build the new Peller Estates winery nearby in Niagara-on-the-Lake, and anticipate construction beginning within the next twelve months. In addition to providing visitors with another memorable wine-country experience, the winery will expand our production of premium VQA wines.

Our agritourism business continues to grow, and in 1999 we initiated a number of innovative programs to support and expand this important part of our growth strategy. As an example, we recently introduced the Wine Country At Home program whereby consumers can order Hillebrand, Trius and Peller Estates products for home delivery by phone, fax, or over the Internet. Delivering product directly to a home or office allows us to better serve our customers, and helps us to expand our presence in this important trade channel.



HOME WINEMAKING OPERATIONS PERFORMING WELL

Our entry into the home winemaking sector in 1997 resulted from a strategic decision to bring leadership to this growing but highly fragmented business. With the acquisitions of Brew King and Vineco, Andrés became a leading supplier of products and accessories to the Canadian home winemaking industry, and has been consistently raising the quality bar in producing winemaking kits that exceed consumer expectations.

Both Vineco and Brew King produced strong results in 1999, somewhat mitigating the reduced performance of our traditional bottled wine business. We continue to explore opportunities to export our industry-leading kits into countries such as the United States, Japan and Europe where the hobby of home winemaking is less developed.

ACQUISITIONS EXTEND OUR REACH

We are actively searching for acquisition opportunities that meet our growth and investment return criteria. Our strong financial position allows us to act quickly and decisively when an appropriate candidate is found. Through prudent acquisitions, our product portfolio can grow, and our presence in new geographic areas can be extended.

SIGNIFICANT ACCOMPLISHMENTS

Andrés' market success is a direct result of an uncompromising focus on quality. Investments in our facilities, our equipment and our people have one purpose — to ensure we continue to produce the highest-quality wines for consumers and our customers. In 1999, we again received a number of awards and honours, a testament to our long tradition of quality.

In May, Hillebrand's 1995 Trius Chardonnay Lakeshore won a gold medal at the sixth annual Chardonnay du Monde Wine Competition in Burgundy, France, one of only two Canadian wineries to be awarded top honours at this prestigious international competition.

Earlier in the year, Hillebrand's J.L. Groux was named Ontario's Winemaker of the Year at a ceremony in Toronto. We are all very proud of J.L., and the award-winning wines produced under his skillful direction.

Finally, Peller Estates Founder's Series Vidal Icewine 1996 was awarded a gold medal at the International Eastern Wine Competition in Watkins Glen, New York. This award was particularly important as it was the first time an Ontario wine had achieved top honours in three different international wine competitions, having previously won gold at VinItaly and the Challenge International du Vin in Bordeaux, France.

LOOKING AHEAD

The outlook for the current year appears stronger as the market for wine in Canada continues to expand. Pressures on both domestic and international grape and wine costs are easing, and the Canadian dollar is stabilizing. Our emphasis on reducing operating expenses and enhancing profit margins is also proving effective.

While we fell short of achieving our internal return benchmarks in 1999, we remain committed to growing our market share and our profitability. We are confident that the programs initiated during the year, combined with the improving cost picture, should produce enhanced financial performance.

Adapting to dramatic change is difficult in any business, and in closing we want to thank everyone at Andrés for their commitment and hard work. We accomplished a great deal in 1999, and in spite of a challenging year, we remain financially strong and focused on delivering value to our shareholders.

John E. Peller
PRESIDENT AND CEO

Joseph A. Peller
CHAIRMAN



THE WINE SHOPPE

Located throughout Ontario, Andrés' well-recognized network of over one hundred Wine Shoppe locations provides consumers with convenience, service and a full line of brands including Peller Estates, Hillebrand Estates, Trius, Vineyard Mist and others from the Company's portfolio of quality wines.

Consumers appreciate and recognize the value of the high level of service they find at their local Wine Shoppe. A favourite Chardonnay can always be found chilled to the correct temperature. Wine accessories and gift-wrapping are available. Advice on serving and matching appropriate wines with food can be obtained from

our friendly and knowledgeable staff. Wine tastings and other educational programs are regularly scheduled to educate consumers about vintages and varieties of wine. As new products are introduced, tasting cards are available that describe the wine and its origins.

Located conveniently near or within shopping malls, grocery stores and on major pedestrian thoroughfares, The Wine Shoppe continues to build customer loyalty and awareness for Andrés' quality products.

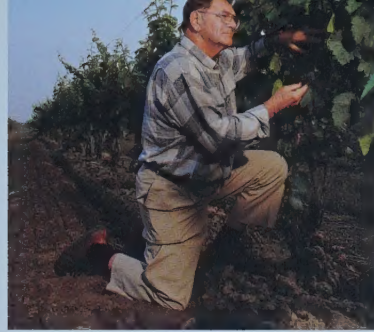
LEADING BRANDS

In addition to its premium Hillebrand and Peller Estates brands, Andrés produces two of Canada's top-selling popular-priced table wines. Domaine D'Or and Hochtaler continue to provide consumers with superb taste and quality at affordable price points. The Company's sparkling wine portfolio remains one of the sales leaders across the country. Andrés has also developed a portfolio of high-quality imported

brands from such leading wine-producing regions as California, Chile, Italy and Australia. Andrés' imported brands include Franciscan, Santa Anna, Di Conti and Gold Coast.

PELLER ESTATES More than twenty-five years ago, Andrew Peller, a European winemaker, travelled to the Niagara Peninsula with the dream to create premium-quality wines in Canada, wines that would proudly bear his family name. His knowledge and experience as a maker of fine wines told him that the best wines start with excellent grapes. He eventually settled in the Niagara Peninsula, a location that provided the perfect location for growing premium vinifera grapes. Today, Peller Estates has developed a fine selection of vintages that is a true tribute to and celebration of Andrew Peller's vision.





Peller Estates has combined the best vineyards and skilled winemaking with patience and dedication to produce the highest-quality premium wines. The intriguing idea of family excellence spanning three generations has captured the attention of consumers and critics alike for the entire product offering. As a result of its uncompromising focus on quality, Peller Estates has grown to become the top-selling brand in the country.

Peller Estates' quality has also been recognized by experts at numerous international wine competitions. At Vinexpo, the Olympics of international wine competitions held in Bordeaux, France, the 1993 Peller Estates Chardonnay French Oak Aged won the highest honour, a Gold Medal, while the 1993 Peller Estates Chardonnay Sur Lie was awarded the Grand Gold Medal at the VinItaly competition held in Veneto, Italy. At the 1995 World Wine Championship in Chicago, a Gold Medal was given to the 1991 Peller Estates Vidal Icewine.

In 1998, over 200 acres of prime vineyards in Niagara-on-the-Lake were purchased. Throughout 1999, these lands were planted with some of

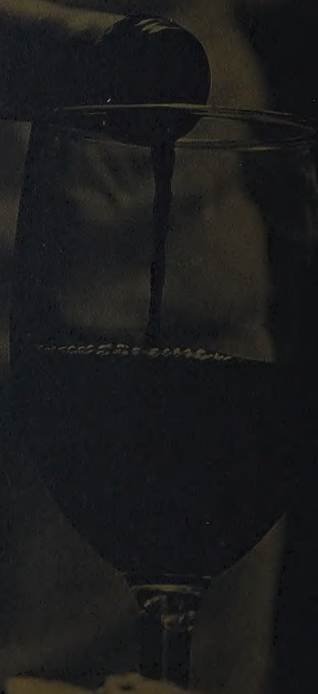
the finest vinifera grapes perfectly suited to this region's climate and growing conditions. By securing its own supply of high-quality grapes, Peller Estates will continue its tradition of producing award-winning vintages.

CANADA'S TOP-SELLING BRAND

The Peller Estates collection has grown to become Canada's top-selling brand. The pinnacle of Andrew Peller's heritage of quality is the Founders Series of fine wines. Made from premium vinifera grapes, each vintage possesses unique characteristics and qualities derived from that year's growing conditions and harvest. Oakridge has become one of the most popular brands on the market, reflecting the quality and craftsmanship of the Peller family tradition. Generic to British Columbia's unique growing environment, Peller Estates CCW Cool Climate Wines are receiving critical acclaim and have been recently introduced in Ontario. Rounding out the brand are French Cross and Proprietor's Reserve.



HILLEBRAND ESTATES Founded in 1982, Hillebrand Estates Winery is Canada's leading producer of premium VQA wines. Hillebrand has been awarded more than 300 medals at competitions around the world, and is one of Canada's most recognized and respected wineries. Hillebrand was a pioneer in attracting wine connoisseurs to Ontario's Niagara region, providing tours, tastings, a retail store and gourmet meals in The Vineyard Café. A number of special events are organized each year, including the ever-popular two-day Vineyard Jazz Festival held in July. Hillebrand produced Canada's first ice wine, and is the only winery to have produced this rare and unique wine every year since its introduction.





Located in historic Niagara-on-the-Lake, Hillebrand makes full use of the region's unique climate, agriculture, history and natural beauty to produce not only a full range of world-class wines, but also a complete wine country experience.

Over 100,000 wine-lovers each year come to Hillebrand for its fine wines, gourmet meals, a number of special events and wine-related tours and activities. As a result, Hillebrand has become one of the premier destinations for visitors to the Niagara region.

Hillebrand is one of Canada's most decorated wineries. In 1988, Hillebrand was awarded the first Gold Medal for an Ontario wine at the prestigious Intervin International Wine Competition. In 1995, its 1991 Trius Red won the Pichon Longueville Comtesse de Lalonde trophy at the International Wine and Spirit Competition in London, England. In May 1999, Hillebrand was awarded gold for its 1995 Trius Chardonnay Lakeshore at the sixth annual Chardonnay du

Monde Wine Competition held in Burgundy, France. To top off the list of awards received by Hillebrand, the vineyard's winemaker, J.L. Groux, was named Ontario's Winemaker of the Year in 1998.

AWARD-WINNING PREMIUM BRANDS

Among the many fine wines produced by Hillebrand is the premium Trius series, which includes Trius Red, Chardonnay, Riesling, Icewine and Brut, a superior wine vinted according to the stringent standards of the méthode champenoise sparkling wine tradition. Hillebrand's Collectors' Choice vintages continue to win awards and consumer loyalty, while the Harvest series Chardonnay has become one of the top-selling VQA wines in Canada. Rounding out the brand, Stone Road and Vineyard Select continue to grow in popularity.

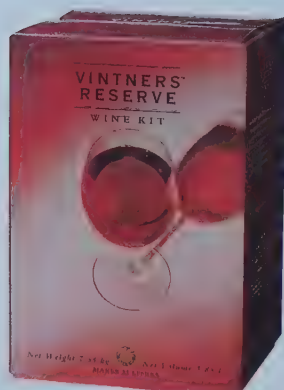


HOME WINEMAKING

Since its entry into the home winemaking market in 1997, Andrés has brought leadership to this growing market, and has become Canada's leading supplier of quality winemaking kits, products and accessories. Available across Canada from an expanding network of independent distributors, Vineco and Brew King are well recognized as the best in the business. New opportunities are being developed as Andrés exports its quality kits to the less-developed home winemaking markets in the United States, the Pacific Rim and Europe.

BREW KING Sold under the Selection, Vintners Reserve and Chai Maison brands, Brew King combines the best grapes from the world's leading wine regions with state-of-the-art processing techniques to produce what are widely recognized as the best home winemaking kits on the market. Each winemaking kit preserves its natural quality and freshness through date coding, ensuring consumers receive the highest-quality product. Brew King is the largest supplier to the western Canadian market.

VINECO With a heritage of producing high-quality products for over thirty years, Vineco is the largest supplier to the eastern Canadian home winemaking market. Importing juices and concentrates from well-known wine regions in France, Italy, California and Chile, Vineco produces its products in small batches to ensure quality and freshness. Sold under the VIP Series, California Connoisseur and European Select labels, each kit includes easy-to-follow instructions that guarantee consumers a wine they will be proud to serve.



MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION

The following management discussion and analysis provides a review of corporate and market developments and the results of operations and financial position of Andrés Wines Ltd. ('Andrés') for the year ended March 31, 1999 ('1999') in comparison with those for the year ended March 31, 1998 ('1998'). This discussion should be read in conjunction with the consolidated financial statements and the accompanying notes.

MARKET REVIEW

The total volume of wine sales in Canada, excluding wine coolers and ciders, increased 4.4% for the year to 2.35 million hectolitres from 2.25 million hectolitres in 1998. Growth occurred in all regions except British Columbia, where volume remained flat. Sales of Canadian wines remained flat at 0.9 million hectolitres, resulting in a market share of 38.1%.

Growth came principally from the red wine category where volume increased 11.1%, representing 40.0% of total wine sales in Canada. Rosé wines, fuelled by the popularity of White Zinfandel and other blush products, grew 22.0%. White wine volume declined 2.4% during 1999 but still represents 42.5% of total wine sales in Canada. Red and white varietal wine volume grew at a rate of 9.9% and now represents 29.0% of the total table wine market in Canada.

Andrés' volume decreased 3.1% in 1999, resulting in a decrease in market share to 11.0% from 11.8%, due primarily to lower volumes sold through the Company's Wine Shoppe retail outlets in Ontario and the impact of low-priced imported wines, particularly from France and Italy. In the key segments, red wine volume increased 3.7% in a market that grew 11.1%, and white wine volume declined 5.7% in a market that declined 2.4%. In the varietal market segment, volume decreased 1.9% from the prior year.

With a view to volume and market share growth in fiscal 2000, Andrés will maintain competitive price positions, introduce and market new wine products and continue to focus on producing the highest quality products.

RESULTS OF OPERATIONS

Andrés sales for the year ended March 31, 1999 increased 14.1% to \$135.4 million from \$118.7 million for the preceding year. This growth was due primarily to our expansion over the past two years into the home winemaking sector through the acquisition of Vineco and Brew King. Brew King was acquired on November 30, 1997.

Gross profit margin as a percent of net sales decreased to 38.9% in 1999 from 42.1% in 1998. The decrease in margin was attributable to aggressive sales and marketing activities by the Liquor Control Board of Ontario, including Sunday openings and store relocations, which resulted in a reduction of more than 10% in sales at the Company's Wine Shoppe retail outlets in Ontario; higher wine and grape costs compounded by the drop in value of the Canadian dollar; and increases in the market share of low-priced imported wines.

Selling and administrative expenses decreased to 25.9% of net sales in 1999 from 28.0% in 1998. The decrease reflects the impact of lower selling and marketing investment levels required in the home winemaking segment and cost reduction initiatives.

EBITDA increased 5.4% to \$17.7 million for 1999 compared to \$16.8 million in 1998.

Interest expense increased to \$3.3 million in 1999 from \$1.5 million in 1998 as a result of the acquisition of Brew King and higher inventory levels during the year. Amortization increased to \$4.0 million in 1999 from \$3.4 million in 1998, reflecting increased amortization of goodwill on the acquisition of Brew King.

Net earnings for the year decreased 16.4% to \$5.6 million from \$6.7 million in 1998. Basic and fully diluted earnings decreased to \$1.20 and \$1.18 respectively per common share compared to \$1.44 and \$1.40 for the prior year.

The return on average capital employed decreased to 12.5% from 16.0% while return on average shareholders' equity decreased to 10.3% from 13.1%.

LIQUIDITY AND CAPITAL RESOURCES

During the year, the Company generated \$10.4 million from operations before changes in non-cash working capital. Non-cash working capital increased by \$0.3 million to \$56.7 million as lower levels of inventory on hand were more than offset by higher grape and wine costs.

Dividends paid during the year remained at \$0.644 per Class A share and \$0.56 per Class B share. Capital additions amounted to \$7.0 million during 1999 compared to \$26.5 million in 1998. The principal areas of expenditure during the year were the development of premium vinifera vineyards purchased during 1998, investment in premium winemaking equipment, upgrading of production facilities and expenditures in selected Wine Shoppe locations. During 1998, capital expenditures included the acquisition of Brew King capital assets. Development of the Peller Estates winery is expected to increase the level of capital expenditures to approximately \$10.6 million during the upcoming year.

The Company ended 1999 with bank indebtedness of \$54.9 million compared to indebtedness of \$55.1 million in 1998. The Company has a demand operating facility with a borrowing limit of \$43.0 million, a term facility in the amount of \$23.1 million and a currently unused term facility in the amount of \$12.0 million that would be used to finance specific capital projects.

Shareholders' equity increased to \$56.3 million as at March 31, 1999 compared to \$53.5 million as at March 31, 1998. Shareholders' equity per common share increased to \$11.97 from \$11.39.

QUEBEC WINERY DISPOSAL

On May 31, 1999, the Company completed the sale of the operating assets of its wholly-owned subsidiary, Les Vins André du Québec Ltée. Consideration received included cash of approximately \$8.5 million and a 15% interest in a continuing winery operation. An estimated gain of \$5.2 million or \$1.10 per common share will be recorded on the transaction in the first quarter of the upcoming year. The investment will be accounted for by the cost method, whereby income will be recognized only to the extent that cash is received. In 1999, Les Vins André du Québec Ltée had sales of approximately \$9.5 million.

STRATEGIC OUTLOOK AND DIRECTION

The Company continues to hold a positive outlook on market conditions in Canada and will continue to focus on increasing sales, market share and earnings.

André remains committed to a strategy of investing in areas of growth within its core business as a producer and marketer of quality wines. The company's objective is to increase sales and earnings by building leading brands through product quality and innovation, advertising, special events and tourism; by investing in its Wine Shoppe distribution network with a focus on improving selection and service to its customers; and by maintaining a focus on asset utilization and cost efficiencies.

The Company will continue to prudently evaluate merger and acquisition opportunities that support its strategic direction.

RISKS AND UNCERTAINTIES

The sale of wine is affected by the general state of the economy and consumer confidence, and as such, a change in consumer preference could reduce Company sales. Competition from both foreign and domestic vintners can also have the effect of reducing sales.

Privatization of liquor distribution and retailing has been implemented in varying degrees across the country. The possibility of privatization in Ontario remains a risk to the Company through its impact on the Company's retail operations. The government has stated that, should it further consider privatization, it would engage in a consultation process and acknowledge the special role of Ontario's wine industry.

The Company relies on both the domestic production of grapes and importation of wine from countries around the world to produce and market its wines. Although the supply of grapes and wine may be impacted by weather conditions, the Company maintains relationships with suppliers around the world to ensure an adequate supply. The Company's investment in vineyards has also helped to balance the risk associated with a consistent supply of domestically grown grapes.

YEAR 2000

During 1998, a detailed review of all existing operational systems was conducted to determine the impact of the 'Year 2000' on the Company, and as a result of this review, an implementation plan was developed. During 1999, the implementation plan was substantially executed with final completion targeted for August 31, 1999.

The Company is currently developing a contingency plan to address any unforeseen events that may arise. Costs to make the Company 'Year 2000' compliant are estimated to be \$0.3 million and are being expensed as incurred.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

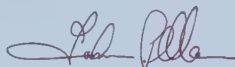
The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors. Management is responsible for the integrity of the information contained in the financial statements and other sections of this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles.

To assist management in discharging its responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate and timely financial information is prepared.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control. The Board exercises these responsibilities primarily through the Audit, Finance and Risk Committee (the "Committee"). The Committee meets periodically with management and the Company's auditors to ensure that its responsibilities are properly discharged. The Committee also reviews the consolidated

financial statements and recommends to the Board of Directors that the statements be approved for issuance to shareholders.

PricewaterhouseCoopers L.L.P., Chartered Accountants, appointed by the shareholders as the Company's auditors, have audited and expressed their opinion on the accompanying consolidated financial statements of the Company.



John E. Peller
PRESIDENT AND CEO



Robert P. Van Wely
SENIOR VICE-PRESIDENT
CORPORATE DEVELOPMENT AND
CHIEF FINANCIAL OFFICER

AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of Andrés Wines Ltd. as at March 31, 1999 and 1998 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1999 and 1998 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



CHARTERED ACCOUNTANTS
HAMILTON, ONTARIO
MAY 31, 1999

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

For the years ended March 31

(in thousands of dollars except per share amounts)

	1999	1998
SALES	\$ 135,446	\$ 118,668
Cost of goods sold	82,751	68,699
GROSS PROFIT	52,695	49,969
Selling and administration	35,038	33,181
EARNINGS BEFORE INTEREST AND AMORTIZATION	17,657	16,788
Interest	3,263	1,524
Amortization	3,951	3,411
EARNINGS BEFORE INCOME TAXES	10,443	11,853
PROVISION FOR INCOME TAXES		
Current	3,952	4,186
Future	838	935
	4,790	5,121
NET EARNINGS FOR THE YEAR	5,653	6,732
RETAINED EARNINGS – BEGINNING OF YEAR	49,550	45,739
DIVIDENDS		
Class A and Class B	2,941	2,921
RETAINED EARNINGS – END OF YEAR	\$ 52,262	\$ 49,550
EARNINGS PER SHARE		
Basic	\$ 1.20	\$ 1.44
Fully diluted	\$ 1.18	\$ 1.40

CONSOLIDATED BALANCE SHEETS

As at March 31

(in thousands of dollars)

	1999	1998
ASSETS		
CURRENT ASSETS		
Accounts receivable (Note 4)	\$ 13,538	\$ 14,291
Inventories (Notes 2 and 4)	55,581	55,410
Prepaid expenses	714	1,171
	69,833	70,872
CAPITAL ASSETS (Notes 3 and 4)	58,230	55,213
	\$ 128,063	\$ 126,085
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 4)	\$ 31,733	\$ 30,087
Accounts payable and accrued liabilities	10,721	12,787
Dividends payable	735	735
Income and other taxes payable	1,550	890
Current portion of long-term debt	1,979	1,861
	46,718	46,360
LONG-TERM DEBT (Note 4)	21,160	23,139
FUTURE INCOME TAXES	3,920	3,082
	71,798	72,581
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5)	4,003	3,954
RETAINED EARNINGS	52,262	49,550
	56,265	53,504
	\$ 128,063	\$ 126,085

Approved by the Board



Joseph A. Peller, Director



C. William Daniel, Director

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended March 31
(in thousands of dollars)

	1999	1998
OPERATING ACTIVITIES		
Net earnings for the year	\$ 5,653	\$ 6,732
Amortization	3,951	3,411
Future income taxes	838	935
	10,442	11,078
Net change in non-cash working capital items	(367)	(27,755)
	10,075	(16,677)
FINANCING ACTIVITIES		
Issue of Class A shares	49	489
Increase (decrease) in long-term debt	(1,861)	25,000
Dividends paid	(2,941)	(2,921)
	(4,753)	22,568
INVESTING ACTIVITIES		
Additions to capital assets	(6,968)	(26,518)
(INCREASE) IN BANK INDEBTEDNESS	(1,646)	(20,627)
BANK INDEBTEDNESS – BEGINNING OF YEAR	(30,087)	(9,460)
BANK INDEBTEDNESS – END OF YEAR	\$ (31,733)	\$ (30,087)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 1999 and 1998
(in thousands of dollars)

1. ACCOUNTING POLICIES

(A) **BASIS OF CONSOLIDATION** These financial statements include the accounts of the Company and all subsidiary companies. The purchase method has been used to account for all acquisitions. The assets and liabilities of subsidiary companies acquired are included at their fair values.

(B) **INVENTORIES** Inventories are valued at the lower of cost and net realizable value. Cost is determined on an average cost basis.

(C) **CAPITAL ASSETS** Capital assets are carried at cost less accumulated amortization. Amortization of capital assets is calculated on the straight-line basis in amounts sufficient to amortize the cost of capital assets over their estimated useful lives as follows:

Buildings	2.5% per year
Vineyards	5% per year
Machinery and equipment	7.5% to 20% per year

Goodwill, representing the excess cost over the fair value of net assets acquired, is amortized on a straight-line basis over a period of up to forty years. The Company reviews the value of goodwill annually. The measurement of possible impairment is based primarily on the ability to recover the balance of goodwill from expected future operating cash flows on an undiscounted basis.

Costs of planting new vines and ongoing cultivation costs for vines not yet bearing, including interest, are capitalized. Amortization commences in the initial year the vineyard yields a commercial crop.

(D) **EARNINGS PER SHARE** Basic earnings per Class A share and per Class B share have been calculated using the weighted average number of Class A shares and Class B shares outstanding during the year.

Net earnings for the calculation of fully diluted earnings per Class A share and per Class B share have been increased by \$98 (1998 — \$115) being the after-tax effect of the investment at 7.0% (1998 — 7.0%) of the proceeds of the exercise of the stock options mentioned in Note 5, assuming they had been exercised at the beginning of the fiscal period.

(E) **SEGMENTED INFORMATION** The Company and its subsidiary companies operate in a single segment, that being the production and marketing of wine products, and service one geographic segment, that being Canada. A significant portion of the Company's sales are made through the liquor control boards in each province that the Company transacts business.

(F) **MEASUREMENT UNCERTAINTY** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

(G) **FAIR VALUE OF FINANCIAL INSTRUMENTS** Accounts receivable, accounts payable and accrued liabilities are reflected in these consolidated financial statements at carrying values which approximate fair values because of the short-term maturities of these instruments.

Bank indebtedness bears interest at current rates of interest, and as a result its carrying value approximates its fair value.

(H) **INCOME TAXES** The Company adopted the new accounting recommendations of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants ("CICA") entitled Income Taxes. The recommendations adopt the liability method of measuring income taxes based on temporary differences. This change in method had no material impact on the results of the Company. Future income taxes are provided for all temporary differences between the financial reporting and tax bases of assets and liabilities. Future income tax expense represents the change during the period in future income tax assets and future income tax liabilities.

2. INVENTORIES

	1999	1998
Packaging materials and supplies	\$ 5,938	\$ 5,426
Bulk wine	32,778	34,969
Finished goods	16,865	15,015
	<u>\$ 55,581</u>	<u>\$ 55,410</u>

3. CAPITAL ASSETS

	1999			1998		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Land	\$ 2,411	\$ –	\$ 2,411	\$ 2,496	\$ –	\$ 2,496
Vineyards	4,375	–	4,375	2,427	–	2,427
Buildings	17,201	5,318	11,883	15,842	4,874	10,968
Machinery and equipment	39,044	22,348	16,696	37,043	21,343	15,700
Goodwill	25,000	2,135	22,865	25,000	1,378	23,622
	<u>\$ 88,031</u>	<u>\$ 29,801</u>	<u>\$ 58,230</u>	<u>\$ 82,808</u>	<u>\$ 27,595</u>	<u>\$ 55,213</u>

During 1999, interest capitalized associated with vineyards amounted to \$177 (1998 – \$57).

4. BANK INDEBTEDNESS

	1999	1998
Term bank loan	\$ 23,139	\$ 25,000
Less: current portion	1,979	1,861
	<u>\$ 21,160</u>	<u>\$ 23,139</u>

The Company has established three separate credit facilities with the Royal Bank of Canada as follows:

A demand loan facility with a borrowing limit of \$43,000, which incurs interest at the Royal Bank of Canada prime interest rate. As at March 31, 1999, the unused portion of this facility was \$11,267 (1998 – \$12,913).

A term facility, which incurs interest at 6.235%, requires blended monthly payments of principal and interest in the amount of \$281 and is due March 9, 2003. Interest on long-term debt amounted to \$1,506 (1998 – \$441).

A term facility, with a borrowing limit of \$12,000, to be used to finance specific capital projects, which incurs interest at the Royal Bank of Canada prime rate plus one quarter percent. As at March 31, 1999, this facility was not utilized.

The Company and its subsidiary companies have provided a first charge on accounts receivable and inventories and a fixed and floating charge on capital assets as security for its loan facilities.

Annual principal repayments for the years ending March 31 are as follows:

2000	\$ 1,979
2001	2,107
2002	2,242
2003	16,811
	<u>\$ 23,139</u>

5. CAPITAL STOCK

	Authorized	Issued		Issued	
		SHARES	1999	Shares	1998
Class A shares, non-voting	Unlimited	3,687,510	\$ 3,598	3,683,210	\$ 3,549
Class B shares, voting	Unlimited	1,012,444	405	1,012,444	405
		4,699,954	\$ 4,003	4,695,654	\$ 3,954

Class A shares are non-voting and are entitled to a dividend in an amount equal to 115% of any dividend paid or declared on Class B shares. Class B shares are voting and convertible into Class A shares on a one-for-one basis. During 1999, no Class B shares were converted to Class A shares (1998 – 900).

During 1999, 4,300 (1998 – 36,250) Class A shares were issued on exercise of stock options for proceeds of \$49.

STOCK OPTION PLAN The Company has a stock option plan for executives and directors. The following options are outstanding as at March 31:

Number of shares subject to option

1999	1998	Exercise price per share	Option expiry date
65,600	77,400	\$ 11.25	June 5, 2001
11,550	11,550	13.50	Oct. 30, 2001
92,900	96,700	16.00	Feb. 5, 2002
170,050	185,650		

As at March 31, 1999, 114,575 (1998 – 74,700) options are currently exercisable under the terms of the stock option plan. During 1999, 11,300 stock appreciation rights were exercised (1998 – Nil). The costs associated with the exercise of these rights of \$103 were expensed in 1999.

6. COMMITMENTS

Future minimum lease payments as at March 31, 1999 under long-term non-cancellable lease agreements amount to \$3,278, and for each of the next five years are as follows:

2000	\$ 1,760
2001	827
2002	333
2003	223
2004	135
	\$ 3,278

7. ASSET ACQUISITION

On November 30, 1997, the Company acquired certain net assets of D & R Brew King Inc. ("Brew King") for cash consideration of \$22,500 (Net tangible assets – \$6,129; Goodwill – \$16,371). This transaction was accounted for using the purchase method. The results of operations from December 1, 1997 have been included in these consolidated financial statements.

8. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be resolved.

9. SUBSEQUENT EVENT

On May 31, 1999, the Company completed the sale of the operating assets of its wholly-owned subsidiary, Les Vins André du Québec Ltée. Consideration received amounted to approximately \$15,500, including cash of \$8,500 and a 15% interest in a continuing winery operation. The after-tax gain is estimated to be \$5,200. The investment will be accounted for by the cost method, whereby income is recognized only to the extent received.

TEN YEAR SUMMARY

(thousands except per share amounts)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
SALES AND EARNINGS										
Net sales	\$ 135,446	\$ 118,668	\$ 98,139	\$ 79,486	\$ 70,601	\$ 55,835	\$ 56,360	\$ 55,803	\$ 52,634	\$ 53,311
Earnings before interest and income taxes	13,706	13,377	11,660	9,648	7,735	6,797	7,652	8,046	7,815	7,785
Net earnings	5,653	6,732	6,507	5,420	4,166	4,048	4,426	4,616	4,467	4,557
FINANCIAL POSITION										
Working capital	\$ 23,115	\$ 24,512	\$ 19,245	\$ 24,638	\$ 21,676	\$ 31,863	\$ 41,148	\$ 39,278	\$ 37,419	\$ 35,322
Total assets	128,063	126,085	74,770	57,056	54,486	49,930	57,208	55,501	54,249	51,464
Shareholders' equity	56,265	53,504	49,204	45,404	42,415	40,990	48,981	46,911	44,903	43,044
PER SHARE										
Earnings										
– Basic	\$ 1.20	\$ 1.44	\$ 1.40	\$ 1.17	\$ 0.90	\$ 0.88	\$ 0.99	\$ 1.03	\$ 1.00	\$ 1.02
– Fully diluted	1.18	1.40	1.38	1.17	0.89	0.87	0.96	1.00	1.00	1.01
Dividends (1)										
– Class A shares, non-voting	\$ 0.644	\$ 0.644	\$ 0.598	\$ 0.598	\$ 0.598	\$ 2.898	\$ 0.598	\$ 0.598	\$ 0.598	\$ 0.598
– Class B shares, voting	0.560	0.560	0.520	0.520	0.520	2.520	0.520	0.520	0.520	0.520
NUMBER OF SHARES OUTSTANDING										
Class A shares, non-voting	3,687,510	3,683,210	3,646,060	3,645,060	3,602,160	3,564,960	3,461,960	3,431,560	3,431,560	3,431,560
Class B shares, voting	1,012,444	1,012,444	1,013,344	1,041,344	1,027,244	1,028,444	1,029,944	1,030,344	1,030,344	1,030,344
	4,699,954	4,695,654	4,659,404	4,686,404	4,629,404	4,593,404	4,491,904	4,461,904	4,461,904	4,461,904
OTHER INFORMATION										
Return on average shareholders' equity	10.3%	13.1%	13.8%	12.3%	10.0%	9.0%	9.3%	10.1%	10.2%	10.9%
Return on average capital employed	12.5%	16.0%	22.3%	20.7%	17.4%	14.7%	15.5%	16.9%	17.1%	17.7%

(1) Dividends for the year ended March 31, 1994 reflect a special dividend of \$2.30 per Class A share and \$2.00 per Class B share.

SHAREHOLDER INFORMATION

HEAD OFFICE

Andrés Wines Ltd.
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Ontario L8E 5S4
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Fax: (905) 643-4944

DIRECTORS

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Lori C. Covert
Halifax, Nova Scotia
President
Vantage Communications Inc.

C. William Daniel, O.C.
Toronto, Ontario
Corporate Director

Graham R. Dawson
Vancouver, British Columbia
Chairman
Dawson Construction Limited

John F. Petch, Q.C.
Toronto, Ontario
Vice Chairman and Senior Partner
Osler, Hoskin & Harcourt

A. Angus Peller, M.D.
Canandaigua, New York
Family Physician

Joseph A. Peller, M.D.
Rockwood, Ontario
Chairman
Andrés Wines Ltd.

John E. Peller
Burlington, Ontario
President and
Chief Executive Officer
Andrés Wines Ltd.

William J. Walsh, M.D.
Hamilton, Ontario
Emeritus Professor of Medicine
McMaster University

HONORARY DIRECTORS

Carlisle Norwood
Mahone Bay, Nova Scotia

Ralph M. Logan
Halifax, Nova Scotia

STOCK EXCHANGE

Toronto
Symbols: ADW.A, ADW.B

REGISTRAR AND TRANSFER AGENT

The Montreal Trust Company
Montreal, Toronto, Calgary,
Vancouver

AUDITORS

PricewaterhouseCoopers L.L.P.

BANKER

Royal Bank of Canada

SHAREHOLDER INQUIRIES

The Montreal Trust Company operates a telephone information line for inquiries regarding change of address, stock transfer, registered shareholdings, dividends and loss certificates, which can be reached by dialing 1-416-981-9633.

INVESTOR RELATIONS

For additional information regarding the Company's activities please contact: Robert P. Van Wely, Senior Vice-President Corporate Development and Chief Financial Officer.

OFFICERS

John E. Peller
President and
Chief Executive Officer

Anthony M. Bristow
Vice-President
and General Manager
Vineco International Products/
Brew King

M. Chrystine Cappadocia
Vice-President Marketing

Robert W. Davis
Senior Vice-President Sales and
Marketing, Eastern Canada

Larry G. Gibson
Vice-President Viticulture

Peter B. Patchet
Vice-President Finance
and Human Resources

David E. Ringler
Senior Vice-President Operations

John K. Simmonds
Vice-President Retail Operations &
Executive Director Wine Shoppe

Robert P. Van Wely
Senior Vice-President
Corporate Development and
Chief Financial Officer

Donald B. Woods
Vice-President Sales and
Marketing, Western Canada

ANDRÉS

